

Message Text

CONFIDENTIAL

PAGE 01 KINSHA 07260 301501Z

65-53

ACTION SS-14

INFO OCT-01 ISO-00 AF-04 NSC-05 NSCE-00 INR-05 INRE-00

SSO-00 EB-03 L-01 TRSE-00 CIAE-00 OMB-01 SP-02 IO-03

EUR-08 /047 W

----- 040324

O 301400Z AUG 76

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC NIACT IMMEDIATE 9353

C O N F I D E N T I A L KINSHASA 7260

LIMDIS

FOR UNDER SECRETARY ROGERS

E.O. 11652: GDS

TAGS: EFIN EGEN CG

SUBJ: EXIM INGA-SHABA PAYMENT FACILITY AGREEMENT

REF: A. KINSHASA 7059; B. KINSHASA 7103; C. STATE 214210

1. THIS MISSION, IN CONJUNCTION WITH LOCAL CIS REPS, HAS WORKED VIGOROUSLY TO CONVINCE THE ZAIRIANS THAT THEY SHOULD PROCEED WITH THE PAYMENT FACILITY PAPERWORK AND MOVE QUICKLY TO SIGNATURE. IN THE EARLY STAGES, THE GOZ SEEMED PREPARED TO SIGN, BUT RECENTLY THE PRIVATE BANKS AND (WE BELIEVE FROM OUR LOCAL CONTACTS) OTHER CREDITOR GOVTS HAVE BROUGHT COUNTERVAILING PRESSURE TO THE POINT WHERE ZAIRE NOW HAS SERIOUS RESERVATIONS. AT THE GOZ TECHNICAL LEVELS, WE ARE ASSURED THAT THE REVIEW PROCESS HAS NEVERTHELESS GONE FORWARD AND THAT IF A TOP-LEVEL DECISION IS MADE TO SIGN, WE CAN MOVE THE DOCUMENTS QUICKLY. FROM OUR EXPERIENCE, HOWEVER, WHEN THE GOZ IS UNDER CONFLICTING PRESSURES, IT USUALLY DOES NOTHING, RELYING INSTEAD UPON THE PROTAGONISTS TO SORT THEMSELVES OUT AND REACH A COMPROMISE WHICH DOES NOT LEAVE ZAIRE ON THE SPOT. SUCH A SITUATION BODES ILL FOR THE TIMELY DISBURSEMENT OF THE OVERRUN FINANCING, WHICH RISKS OUR BILATERAL RELATIONS, AS WELL AS PLACES ALREMENDOUS STRAINS ON MORRISON-KNUDSEN WHICH
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 KINSHA 07260 301501Z

IS BUILDING THE LINE.

2. WHILE WE HAVE AND WILL CONTINUE TO FOLLOW WASHINGTON'S INSTRUCTIONS IN THIS MATTER, WE HAVE OUR OWN RESERVATIONS ABOUT THE WISDOM OF CONTINUING TO INSIST ON THE PAYMENT FACILITY AGREEMENT. WE ARE CONCERNED ABOUT THE PRACTICAL, POLITICAL EFFECTS OF THE PAYMENT FACILITY ON THE PRIVATE CREDITORS, THE IBRD, AND OUR FELLOW PARIS CLUB MEMBERS AS WELL AS USG-GOZ RELATIONS.

A) ASSUMING EXIM PREVAILS IN THE COURTS AND DEMONSTRATES THAT THE PAYMENT FACILITY AGREEMENT DOES NOT PROVIDE AN ENFORCEABLE CLAIM ON ZAIRE'S REVENUES/ASSETS, IS IT NOT LIKELY THAT THE BANKS WILL CONTINUE TO BELIEVE THAT EXIM HAS SECURED MORE FAVORABLE TREATMENT? OTHERWISE, WHY SET UP THE PAYMENT FACILITY? WILL THIS PERCEPTION NOT DELAY PRIVATE BANK SUPPORT FOR ZAIRE'S ECONOMIC STABILIZATION AND RECOVERY?

B) IN ITS UNDERSTANDABLE DRIVE TO ACQUIRE ASSURANCE OF PAYMENT, EXIM HAS FASHIONED A MECHANISM WHICH WILL IN EFFECT (ALTHOUGH PERHPAS NOT LEGALLY) GIVE IT PRIORITY TREATMENT OVER THE OTHER CREDITORS. THE IBRD HAS DONE THIS TOO, FOR THE GECAMINES EXPANSION PROJECT, BUT ITS VERSION ONLY COVERS REVENUES GENERATED BY NEW RPT NEW FACILITY. MOREOVER, THE WORLD BANK IS NOT A PARTY TO THE PARIS CLUB ACCORDS, AND THE OTHER CREDITORS HAVE HISTORICALLY ACCEPTED THE BANK'S REFUSAL TO PARTICIPATE IN RESCHEDULING AGREEMENTS AND THEREFORE WILL BE LESS LIKELY TO QUESTION ITS TRUST AGREEMENT. NEVERTHELESS THE ZAIRIANS ARE NOW TAKING A HARD LOOK AT THE AGREEMENT WITH THE WORLD BANK IN THE LIGHT OF THE PARIS CLUB ACCORDS -- AS A DIRECT RESULT OF THE PRESSURES BROUGHT IN THE WAKE OF THE CITIBANK SUIT. HANGING IN THE BALANCE COULD BE NOT ONLY IBRD GOODWILL TOWARD ZAIRE, BUT CRUCIAL INCREASES IN COPPER PRODUCTION.

C) THE PARIS CLUB MEMBERS HAVE THEIR OWN DOUBTS AS TO WHETHER ZAIRE WILL BE ABLE TO PAY THE AMOUNTS AGREED TO AT THE LAST MEETING AND THEY INEVITABLY LOOK, AS THEIR ULTIMATE FALLBACK, TO THE PROVISION IN THE RESCHEDULING ACCORD WHICH REQUIRES THE GOZ TO AFFORD EACH F THE PARTICIPATING COUNTRIES TREATMENT NOT LESS FAVORABLE THAN THAT WHICH IT MAY ACCORD TO ANY OTHER CREDITOR COUNTRY. WE THEREFORE QUESTION WHETHER EXIM'S INFOMRAL ASSURANCES THAT AMOUNTS PAYABLE THROUGH THE PAYMENT FACILITY WILL BE MODIFIED TO FIT WITH THE DEBT RESCHEDULING FORMULA WILL MOLLIFY THE OTHER CREDITORS. FROM WHAT WE SEE IN THE MESSAGES FROM THE CREDITOR CAPITALS AND FROM WHAT WE HEAR FROM THE LOCAL CREDITOR REPS, CONFIDENTIAL

CONFIDENTIAL

PAGE 03 KINSHA 07260 301501Z

OUR JUDGEMENT IS THAT PARIS CLUB MEMBERS SEE THE PAYMENT FACILITY AS A DE FACTO MECHANISM WHICH AIMS AT ASSURING THAT EXIM WILL GET ITS MONEY -- WHEN OTHERS MAY NOT.

D) THUS, THE OTHER CREDITOR/DONOR GOVERNMENTS, THE PRIVATE BANKS AND PERHAPS THE IBRD, IF THE CURRENT PRESSURES IMPACT ON THEIR AGREEMENT, SEE THE PAYMENT FACILITY AS A THREAT AND AS POTENTIAL PROOF OF THEIR SUSPICION THAT ZAIRE IS PREPARED TO MAKE DEALS ON THE SIDE WHEN ENOUGH PRESSURE IS BROUGHT. HENCE AT

THE VERY TIME WHEN WE ARE TRYING TO ENCOURAGE THE OTHER DONORS AND ULTIMATELY THE PRIVATE BANKS AND THE IBRD TO JOIN IN A RESCUE EFFORT FOR ZAIRE AS PART OF THE SECRETARY'S STRATEGY FOR CENTRAL AND SOUTHERN AFRICA, THE PAYMENT FACILITY ARGUMENT LEAVES THE IMPRESSION THAT WE ARE OUT TO PROTECT OUR OWN INTERESTS, WITH LITTLE REGARD FOR OTHERS.

E) FROM THE VIEWPOINT OF BILATERAL RELATIONS, OUR INSISTENCE ON THE PAYMENT FACILITY MAKES OUR OVERALL PITCH TO THE ZAIRIANS LESS THAN CREDIBLE. WE WERE AND ARE THE STRONGEST PROPONENTS OF THE IMF STABILIZATION PROGRAM, INCLUDING THE REITERATED INSISTENCE ON EQUITABLE TREATMENT TO ALL CREDITORS AS A SINE QUA NON OF RESTORED CONFIDENCE. IT HAS BEEN BAD ENOUGH TO INSIST AT THE SAME TIME THAT EACH OF OUR DEBTS FALLING DUE BE PAID AHEAD OF OTHER CREDITOR CLAIMS, BUT TO DEMAND THAT WE FORMALIZE WHAT HAS BEEN A DE FACTO PREFERENTIAL POSITION IS A BIT MUCH. LASTLY, WE MUST NOT FORGET THAT THE THRUST OF OUR DEMARCHES TO THE ZAIRIANS, AND THIS FROM THE HIGHEST LEVELS OF THE USG, HAS BEEN THAT WE WILL DO EVERYTHING IN OUR POWER TO HELP ZAIRE THROUGH ITS ECONOMIC/FINANCIAL DIFFICULTIES. ALREADY, MOBUTU HAS SEEN OUR TOUGH STANCE AT THE LAST PARIS CLUB MEETING AS AN INDICATION THAT WE ARE WAVERING IN OUR SUPPORT. HE WAS EVEN LED TO BELIEVE THAT THE USG WAS BEHIND MACNAMARA'S TOUGH LETTER. IN SUM, THE INSISTENCE ON THE PAYMENT FACILITY SHOULD BE REVIEWED AT THE HIGHEST LEVELS TO ASSURE THAT IT IS IN OUR OVERALL INTERESTS.

3. IN CONCLUSION, WE RECOMMEND THAT THE REQUIREMENT FOR A PAYMENT FACILITY BE DROPPED. THE BEST -- INDEED THE SOLE -- ASSURANCE THAT CREDITORS WILL GET THEIR MONEY BACK LIES IN A GROWING AND PROSPEROUS ZAIRIAN ECONOMY. WE SHOULD BE CONCENTRATING OUR EFFORTS ON FINDING WAYS TO ACCOMPLISH THIS. IF IT IS NONETHELESS DETERMINED THAT SOME SPECIAL ARRANGEMENT IS NECESSARY, THEN WE WOULD SUGGEST:

A) FOR THE PREVIOUS INGA-SHABA LOAN, THAT OUR BILATERAL RE-CONFIDENTIAL

CONFIDENTIAL

PAGE 04 KINSHA 07260 301501Z

SCHEDULING ACCORD SPECIFICALLY PROVIDE FOR MONTHLY PAYMENTS OF THE RESCHEDULED DEBT SERVICE TO THE AGENT BANKS. THE BANK OF ZAIRE COULD, IN A SIDE AGREEMENT WITH EXIM, AGREE TO ISSUE MONTHLY PAYMENTS ORDERS TO SOZACOM DIRECTING THEM TO PAY THE AGENTS.

B) FOR THE OVERRUN FINANCING, THAT THE LOAN AGREEMENT BE REVISED TO PROVIDE FOR MONTHLY PAYMENTS AS ABOVE. SAME SIDE ARRANGEMENT WITH THE BANK OF ZAIRE/SOZACOM.

C) WHILE THE FOREGOING IS NOT NORMAL BANKING PRACTICE, IT IS NO UNCOMMON WHERE ACCOUNTS ARE DELINQUENT. THE PRACTICAL REASON FOR SUCH AN ARRANGEMENT IS THAT THE BANK OF ZAIRE IS MORE LIKELY TO MAKE SMALLER, MORE FREQUENT PAYMENTS THAN IT IS TO BE ABLE TO HANDLE LARGE AMOUNTS EVERY SIX MONTHS.

4. WE WOULD URGE THAT THESE ISSUES BE RAISED WITH EXIM BEFORE MR. BIEM DEPARTS FOR LONDON.

CUTLER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, POLITICAL SITUATION, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 AUG 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976KINSHA07260
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760329-0587
From: KINSHASA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976087/aaaaafwr.tel
Line Count: 170
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 76 KINSHASA 7059, 76 KINSHASA 7103, 76 STATE 214210
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 21 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 APR 2004 by BoyleJA>; APPROVED <09 SEP 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXIM INGA-SHABA PAYMENT FACILITY AGREEMENT
TAGS: EFIN, EGEN, CG, XMB
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006